

CLAUSE H-52 – VALUE ENGINEERING (August 2002)

- (a) General. The Subcontractor is encouraged to develop, prepare, and submit value engineering change proposals (VECP's) voluntarily. The Subcontractor shall share in any net acquisition savings realized from accepted VECP's, in accordance with the incentive sharing rates in paragraph (f) below.
- (b) Definitions. "Acquisition savings," as used in this clause, means savings resulting from the application of a VECP to subcontracts awarded by the same subcontracting office or its successor (and by other subcontracting offices if included in an extended sharing base specified in the Schedule) for essentially the same unit. Acquisition savings include –
 - (1) Instant subcontract savings, which are the net cost reductions on this, the instant subcontract, and which are equal to the instant unit cost reduction multiplied by the number of instant subcontract units affected by the VECP, less the Subcontractor's allowable development and implementation costs;
 - (2) Concurrent subcontract savings, which are measurable net reductions in the prices of other subcontracts that are definitized and ongoing at the time the VECP is accepted; and
 - (3) Future subcontract savings, which are the product of the future unit cost reduction multiplied by the number of future subcontract units scheduled for delivery during the sharing period. If this subcontract is a multiyear subcontract, future subcontract savings include savings on all quantities funded after VECP acceptance.

"Collateral costs," as used in this clause, means agency cost of operation, maintenance, logistic support, or Government-furnished property.

"Collateral savings," as used in this clause, means those measurable net reductions resulting from a VECP in the agency's overall projected collateral costs, exclusive of acquisition savings, whether or not the acquisition cost changes.

"Subcontracting office" includes any subcontracting office that the acquisition is transferred to, such as another branch of the agency or another agency's office that is performing a joint acquisition action.

"Subcontractor's development and implementation costs," as used in this clause, means those costs the Subcontractor incurs on a VECP specifically in developing, testing, preparing, and submitting the VECP, as well as those costs the Subcontractor incurs to make the subcontractual changes required by SURA acceptance of a VECP.

"Future unit cost reduction," as used in this clause, means the instant unit cost reduction adjusted as the Subcontracting Officer considers necessary for projected learning or changes in quantity during the sharing period. It is calculated at the time the VECP is accepted and applies either (1) throughout the sharing period, unless the Subcontracting Officer decides that recalculation is necessary because conditions are significantly different from those previously anticipated or (2) to the calculation of a lump-sum payment, which cannot later be revised.

"SURA costs," as used in this clause, means those agency costs that result directly from developing and implementing the VECP, such as any net increases in the cost of testing, operations, maintenance, and logistics support. The term does not include the normal administrative costs of processing the VECP or any increase in this subcontract's cost or price resulting from negative instant subcontract savings.

"Instant subcontract," as used in this clause, means this subcontract, under which the VECP is submitted. It does not include increases in quantities after acceptance of the VECP that are due to subcontract modifications, exercise of options, or additional orders. If this is a multiyear subcontract, the term does not include quantities funded after VECP acceptance. If this subcontract is a fixed-price subcontract with prospective price redetermination, the term refers to the period for which firm prices have been established.

"Instant unit cost reduction" means the amount of the decrease in unit cost of performance (without deducting any Subcontractor's development or implementation costs) resulting from using the VECP on this, the instant subcontract. If this is a service subcontract, the instant unit cost reduction is normally equal to the number of hours per line-item task saved by using the VECP on this subcontract, multiplied by the appropriate subcontract labor rate.

"Negative instant subcontract savings" means the increase in the cost or price of this subcontract when the acceptance of a VECP results in an excess of the Subcontractor's allowable development and implementation costs over the product of the instant unit cost reduction multiplied by the number of instant subcontract units affected.

"Net acquisition savings" means total acquisition savings, including instant, concurrent, and future subcontract savings, less SURA costs.

"Sharing base," as used in this clause, means the number of affected end items on subcontracts of the subcontracting office accepting the VECP or, if the sharing base has been extended under paragraph 48.102(e) of the Federal Acquisition Regulation (48 CFR Chapter 1), the number of affected end items on subcontracts of subcontracting offices included in the extended base specified in the Schedule.

"Sharing period," as used in this clause, means the period beginning with acceptance of the first unit incorporating the VECP and ending at the later of (1) 3 years after the first unit affected by the VECP is accepted or (2) the last scheduled delivery date of an item affected by the VECP under this subcontract's delivery schedule in effect at the time the VECP is accepted.

"Unit," as used in this clause, means the item or task to which the Subcontracting Officer and the Subcontractor agree the VECP applies.

"Value engineering change proposal (VECP)" means a proposal that –

- (1) Requires a change to this, the instant subcontract, to implement; and
 - (2) Results in reducing the overall projected cost to the agency without impairing essential functions or characteristics; provided, that it does not involve a change –
 - (i) In deliverable end item quantities only;
 - (ii) In research and development (RD) end items or RD test quantities that is due solely to results of previous testing under this subcontract; or
 - (iii) To the subcontract type only.
- (c) VECP preparation. As a minimum, the Subcontractor shall include in each VECP the information described in subparagraphs (1) through (8) below. If the proposed change is affected by subcontractually required configuration management or similar procedures, the instructions in those procedures relating to format, identification, and priority assignment shall govern VECP preparation. The VECP shall include the following:
- (1) A description of the difference between the existing subcontract requirement and the proposed requirement, the comparative advantages and disadvantages of each, a justification when an item's function or characteristics are being altered, the effect of the change on the end item's performance, and any pertinent objective test data.
 - (2) A list and analysis of the subcontract requirements that must be changed if the VECP is accepted, including any suggested specification revisions.
 - (3) Identification of the unit to which the VECP applies.
 - (4) A separate, detailed cost estimate for (i) the affected portions of the existing subcontract requirement and (ii) the VECP. The cost reduction associated with the VECP shall take into account the Subcontractor's allowable development and implementation costs, including any amount attributable to subcontracts under the subcontracts paragraph of this clause, below.
 - (5) A description and estimate of costs SURA may incur in implementing the VECP, such as test and evaluation and operating and support costs.
 - (6) A prediction of any effects the proposed change would have on collateral costs to the agency.
 - (7) A statement of the time by which a subcontract modification accepting the VECP must be issued in order to achieve the maximum cost reduction, noting any effect on the subcontract completion time or delivery schedule.
 - (8) Identification of any previous submissions of the VECP, including the dates submitted, the agencies and subcontract numbers involved, and previous SURA actions, if known.
- (d) Submission. The Subcontractor shall submit VECP's to the Subcontracting Officer, unless this subcontract states otherwise. If this subcontract is administered by other than the subcontracting office, the Subcontractor shall submit a copy of the VECP simultaneously to the Subcontracting Officer and to the Administrative Subcontracting Officer.
- (e) SURA action.
- (1) The Subcontracting Officer shall notify the Subcontractor of the status of the VECP within 45 calendar days after the subcontracting office receives it. If additional time is required, the Subcontracting Officer shall notify the Subcontractor within the 45-day period and provide the reason for the delay and the expected date of the

decision. SURA will process VECP's expeditiously; however, it shall not be liable for any delay in acting upon a VECP.

- (2) If the VECP is not accepted, the Subcontracting Officer shall notify the Subcontractor in writing, explaining the reasons for rejection. The Subcontractor may withdraw any VECP, in whole or in part, at any time before it is accepted by SURA. The Subcontracting Officer may require that the Subcontractor provide written notification before undertaking significant expenditures for VECP effort.
 - (3) Any VECP may be accepted, in whole or in part, by the Subcontracting Officer's award of a modification to this subcontract citing this clause and made either before or within a reasonable time after subcontract performance is completed. Until such a subcontract modification applies a VECP to this subcontract, the Subcontractor shall perform in accordance with the existing subcontract. The Subcontracting Officer's decision to accept or reject all or part of any VECP and the decision as to which of the sharing rates applies shall be final and not subject to the Disputes clause or otherwise subject to litigation under the Contract Disputes Act of 1978 (41 U.S.C. 601-613).
- (f) Sharing rates. If a VECP is accepted, the Subcontractor shall share in net acquisition savings according to the percentages shown in the table below. The percentage paid the Subcontractor depends upon (1) this subcontract's type (fixed-price, incentive, or cost-reimbursement), (2) the sharing arrangement specified in paragraph (a) above (incentive, program requirement, or a combination as delineated in the Schedule), and (3) the source of the savings (the instant subcontract, or concurrent and future subcontracts), as follows:

	Incentive (voluntary)		Program requirement (mandatory)	
	Instant Subcontract Rate	Concurrent and Future Subcontract Rate	Instant Subcontract Rate	Concurrent and Future Subcontract Rate
Fixed-price (other than incentive)	50	50	25	25
Incentive (fixed-price or cost)	*	50	*	25
Cost-reimbursement (other than incentive)**	25	25	15	15

*Same sharing arrangement as the subcontract's profit or fee adjustment formula.

**Includes cost-plus-award-fee subcontracts.

- (g) Calculating net acquisition savings.
- (1) Acquisition savings are realized when –
 - (i) The cost or price is reduced on the instant subcontract,
 - (ii) Reductions are negotiated in concurrent subcontracts,
 - (iii) Future subcontracts are awarded, or
 - (iv) Agreement is reached on a lump-sum payment for future subcontract savings (see subparagraph (i)(4) below). Net acquisition savings are first realized, and the Subcontractor shall be paid a share, when SURA costs and any negative instant subcontract savings have been fully offset against acquisition savings.
 - (2) Except in incentive subcontracts, SURA costs and any price or cost increases resulting from negative instant subcontract savings shall be offset against acquisition savings each time such savings are realized until they are fully offset. Then, the Subcontractor's share is calculated by multiplying net acquisition savings by the appropriate Subcontractor's percentage sharing rate (see paragraph (f) above). Additional Subcontractor shares of net acquisition savings shall be paid to the Subcontractor at the time realized.
 - (3) If this is an incentive subcontract, recovery of SURA costs on the instant subcontract shall be deferred and offset against concurrent and future subcontract savings. The Subcontractor shall share through the subcontract incentive structure in savings on the instant subcontract items affected. Any negative instant subcontract savings shall be added to the target cost or to the target price and ceiling price, and the amount shall be offset against concurrent and future subcontract savings.

- (4) If SURA does not receive and accept all items on which it paid the Subcontractor's share, the Subcontractor shall reimburse SURA for the proportionate share of these payments.
- (h) Subcontract adjustment. The modification accepting the VECP (or a subsequent modification issued as soon as possible after any negotiations are completed) shall –
- (1) Reduce the subcontract price or estimated cost by the amount of instant subcontract savings, unless this is an incentive subcontract;
 - (2) When the amount of instant subcontract savings is negative, increase the subcontract price, target price and ceiling price, target cost, or estimated cost by that amount;
 - (3) Specify the Subcontractor's dollar share per unit on future subcontracts, or provide the lump-sum payment;
 - (4) Specify the amount of any SURA costs or negative instant subcontract savings to be offset in determining net acquisition savings realized from concurrent or future subcontract savings; and
 - (5) Provide the Subcontractor's share of any net acquisition savings under the instant subcontract in accordance with the following:
 - (i) Fixed-price subcontracts - add to subcontract price.
 - (ii) Cost-reimbursement subcontracts - add to subcontract fee.
- (i) Concurrent and future subcontract savings.
- (1) Payments of the Subcontractor's share of concurrent and future subcontract savings shall be made by a modification to the instant subcontract in accordance with subparagraph (h)(5) above. For incentive subcontracts, shares shall be added as a separate firm-fixed-price line item on the instant subcontract. The Subcontractor shall maintain records adequate to identify the first delivered unit for 3 years after final payment under this subcontract.
 - (2) The Subcontracting Officer shall calculate the Subcontractor's share of concurrent subcontract savings by (i) subtracting from the reduction in price negotiated on the concurrent subcontract any SURA costs or negative instant subcontract savings not yet offset and (ii) multiplying the result by the Subcontractor's sharing rate.
 - (3) The Subcontracting Officer shall calculate the Subcontractor's share of future subcontract savings by (i) multiplying the future unit cost reduction by the number of future subcontract units scheduled for delivery during the sharing period, (ii) subtracting any SURA or Government costs or negative instant subcontract savings not yet offset, and (iii) multiplying the result by the Subcontractor's sharing rate.
 - (4) When SURA wishes and the Subcontractor agrees, the Subcontractor's share of future subcontract savings may be paid in a single lump sum rather than in a series of payments over time as future subcontracts are awarded. Under this alternate procedure, the future subcontract savings may be calculated when the VECP is accepted, on the basis of the Subcontracting Officer's forecast of the number of units that will be delivered during the sharing period. The Subcontractor's share shall be included in a modification to this subcontract (see subparagraph (h)(3) above) and shall not be subject to subsequent adjustment.
 - (5) Alternate no-cost settlement method. When, in accordance with subsection 48.104-3 of the Federal Acquisition Regulation, SURA and the Subcontractor mutually agree to use the no-cost settlement method, the following applies:
 - (i) The Subcontractor will keep all the savings on the instant subcontract and on its concurrent subcontracts only.
 - (ii) SURA will keep all the savings resulting from concurrent subcontracts placed on other sources, savings from all future subcontracts, and all collateral savings.
- (j) Collateral savings. If a VECP is accepted, the instant subcontract amount shall be increased, as specified in subparagraph (h)(5) above, by 20 percent of any projected collateral savings determined to be realized in a typical year of use after subtracting any SURA costs not previously offset. However, the Subcontractor's share of collateral savings shall not exceed (1) the subcontract's firm-fixed-price, target price, target cost, or estimated cost, at the time the VECP is accepted, or (2) \$100,000, whichever is greater. The Subcontracting Officer shall be the sole determiner of the amount of collateral savings, and that amount shall not be subject to the Disputes clause or otherwise subject to litigation under 41 U.S.C. 601-613.
- (k) Relationship to other incentives. Only those benefits of an accepted VECP not rewardable under performance, design-to-cost (production unit cost, operating and support costs, reliability and maintainability), or similar incentives shall be rewarded under this clause. However, the targets of such incentives affected by the VECP shall not be

adjusted because of VECP acceptance. If this subcontract specifies targets but provides no incentive to surpass them, the value engineering sharing shall apply only to the amount of achievement better than target.

- (l) Subcontracts. The Subcontractor shall include an appropriate value engineering clause in any subcontract of \$100,000 or more and may include one in subcontracts of lesser value. In calculating any adjustment in this subcontract's price for instant subcontract savings (or negative instant subcontract savings), the Subcontractor's allowable development and implementation costs shall include any subcontractor's allowable development and implementation costs, and any value engineering incentive payments to a subcontractor, clearly resulting from a VECP accepted by SURA under this subcontract. The Subcontractor may choose any arrangement for subcontractor value engineering incentive payments; provided, that the payments shall not reduce SURA's share of concurrent or future subcontract savings or collateral savings.
- (m) Data. The Subcontractor may restrict SURA's right to use any part of a VECP or the supporting data by marking the following legend on the affected parts: "These data, furnished under the Value Engineering clause of subcontract _____, shall not be disclosed outside SURA or duplicated, used, or disclosed, in whole or in part, for any purpose other than to evaluate a value engineering change proposal submitted under the clause. This restriction does not limit SURA's right to use information contained in these data if it has been obtained or is otherwise available from the Subcontractor or from another source without limitations."

If a VECP is accepted, the Subcontractor hereby grants SURA unlimited rights in the VECP and supporting data, except that, with respect to data qualifying and submitted as limited rights technical data, SURA shall have the rights specified in the subcontract modification implementing the VECP and shall appropriately mark the data. (The terms "unlimited rights" and "limited rights" are defined in Part 27 of the Federal Acquisition Regulation.)